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National Industrial Report

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East Coast Ports Threaten Western Dominance

- After a prolonged period of bottlenecks and backlogs, the supply chain has normalized and the new normal for major U.S. ports appears to be emerging.

- Import volume fell 11.8% year-over-year in March, according to the U.S. Census Bureau. Consumer demand for goods has fallen steadily over recent quarters as pandemic restrictions have eased, allowing people to spend money on services again, while inflation has eaten away at discretionary income. Further depressing import volumes is the process of destocking. In response to supply-chain backlogs, many companies beefed up inventories. Inventory-to-sales ratios have remained elevated so far this year, and imports are unlikely to rebound until some existing inventories are cleared.

- Volume at nearly all major ports declined year-over-year in the first quarter, reflecting issues including the slowdown of consumer trade. But the impact has been more pronounced at ports in the Western U.S. Through April 2023, container volumes were down year-over-year in eight of the top nine U.S. ports, with Houston (up 3.4%) the lone exception, according to local port authorities and Savills. Year-over-year volume was down at other major ports between 9.0% (Virginia) and 31.5% (Los Angeles). West Coast ports were down compared to pre-pandemic levels, while the major ports in other parts of the country remain up from 2019 levels.

- Since the Panama Canal Expansion was completed in 2016, ports along the East Coast and in the Gulf of Mexico have been expanding and looking to win shipping business away from the Southern California ports, which handle roughly 40% of imports from Asia. The Georgia Port Authority, for example, expedited $500 million in capacity expansion projects last year.

- Eastern seaports have benefited from capital improvements, while Western ports have struggled with backlogs, a lack of industrial space and labor issues that spooked shipping companies. The labor contract that covers more than 22,000 workers at 22 ports along the West Coast expired in July and a new collective bargaining agreement has yet to be achieved, although a tentative agreement was made on key issues in April and a full agreement appears to be within reach. The impact on West Coast industrial markets so far is minimal, as vacancy rates remain razor-thin and rent growth is robust. In the Inland Empire, in-place rents have grown 18.2% over the last 12 months, with a vacancy rate of 1.9%, while Los Angeles has seen 12.3% growth and a 2.0% vacancy rate.